United States Court of Appeals

for the Second Circuit

BRIEF FOR APPELLEE

76-7207

To be argued by
THOMAS R. FARRELL

UNITED STATES COURT OF APPEALS

FOR THE SECOND CIRCUIT

Docket No. 76-7207

PRUDENTIAL OIL CORPORATION,

Plaintiff-Appellee,

against

PHILLIPS PETROLEUM COMPANY,

Defendant-Appellant.

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE SOUTHERN DISTRICT OF NEW YORK (D. C. 67 CIV 3748 [CLB])

BRIEF OF PLAINTIFF-APPELLEE

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Statement Of The Case

Despite the extensive cast of characters and number of documents, this a simple case—after purporting to assist plaintiff's predecessor in promoting a petrochemical project in Puerto Rico, Phillips stole all of plaintiff's ideas and business concepts, developed the project for itself and excluded plaintiff from any participation. Phillips' statement of the case, however, leaves the Court completely uninformed as to most of the crucial facts underlying the judgment below. Hence, a restatement will be required.

A. The Facts

1. *Efforts to Promote a Petrochemical Facility in Puerto Rico*

Since 1961, the Puerto Rican Economic Development Administration ("EDA") had sought to encourage the expansion of the petrochemical industry in Puerto Rico by the establishment of refinery and petrochemical facilities on the island. It was

hoped that the development of such an industry would compensate for the lack of indigenous raw materials in Puerto Rico in that the petrochemicals produced would attract industry and provide employment opportunities on the island (A 39-40).*

There were then two petroleum refineries in Puerto Rico and there was also in effect the United States Oil Import Program which, without some change in the regulations, would prohibit importation of foreign petroleum as feedstock for any proposed petrochemical facility (A 42-43). In order to be economically feasible the proposed facility would have to use imported petroleum, because at that time foreign petroleum was substantially cheaper than domestic (Tr. 1000-01, 1332-35). Hence, the key to realizing the project was obtaining an import quota (Tr. 748-49, 1334-35).

Although quotas were much sought after (Tr. 1401-02), they were difficult to obtain because they conflicted with the basic policy of the import program (Tr. 1332-33, 1336-37). Since petroleum cannot be converted completely into petrochemicals, a petrochemical facility would necessarily produce large quantities of traditional petroleum products such as gasoline and fuel oil, which would enjoy a price advantage over domestic products. The EDA hoped, however, that by promoting the project as the basis of a Puerto Rican petrochemical industry, it would not be deemed to conflict with the objectives of the program (A 43).

In August 1961, a group interested in promoting the Puerto Rican petrochemical project (the "Gibbs-PPI group") arranged with Jack Coan and his consulting firm, Omega Management, Inc., to assist in the preparation of a study for a refinery in Puerto Rico and discussed the project with representatives of EDA (A 41-42). The Gibbs-PPI group retained Oscar Chapman, a

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* The Joint Appendix is in three sections, the first, Volume I, containing decisions, pleadings, stipulated facts, affidavits, etc. and cited as A . The second section is Volumes II-V, containing transcript and cited as Tr. . The third is Exhibits, Volumes I-VII and cited E .

former United States Secretary of the Interior, to assist in obtaining the import authorization and Chapman, in turn, requested Bruce Brown, a director of an oil company and a consultant in the petroleum and petrochemical field, to advise him (A 43). The Gibbs-PPI group discontinued its efforts in February 1962 and terminated Chapman's retainer (A 44).

2. *The Dormancy of the Project in the Spring and Summer of 1962*

From February to April 1962, Chapman, Coan and Brown worked unsuccessfully to develop the project (A 44). In March 1962, Coan met with A. Dale Fischbeck and other representatives of Phillips concerning the proposed project (A 45, E 289-91). In April 1962, Fischbeck advised Coan that Phillips was not interested in participating (A 45, E 293).

On May 9, 1962, Chapman and Brown met with Cordell Moore, Oil Import Administrator for the Department of Interior (A 46). Brown prepared a memorandum of that conference, which stated that the project would not even be submitted to the United States Government for consideration until, among other things, a chemical manufacturer was firmly committed in advance to buy the petrochemical raw materials and utilize them in Puerto Rico when the refining unit went "on stream" (E 303-04).

Thus, the way Brown and Chapman (Tr. 1839) envisioned the project, a prior commitment from at least one chemical manufacturer would be a necessary precondition to applying for and obtaining an import quota. Moreover, the "satellites," the plants using the petrochemicals produced by the "core" refinery, would have to be built at the same time as the core refinery. Otherwise, Brown and Chapman believed, the import quota would not be granted (Tr. 1831-32, 1939). Yet, neither Brown nor Coan was successful in obtaining a pre-commitment from a chemical company to use any of the petrochemicals produced by the core plant (Tr. 1832-35).

On May 16, 1962, Brown once again submitted the proposal to Phillips (A 45-46, E 294-302). On June 5, 1962, Phillips again said that it was not interested (E 309). At that point, Brown thought the project was dead and quit the project for another job (Tr. 1833-34, 1838-39).

As of the spring and summer of 1962, EDA regarded the project as dead (Tr. 918-19).

3. *The Entry of Prudential in the Fall of 1962*

Prudential Oil Company of Connecticut, plaintiff's predecessor ("Prudential" or "Prudential Connecticut"), first became a participant in the project through E. M. Warburg & Co., an investment banking firm which, with Kuhn Loeb & Co., had been working with Chapman and Coan on possible financing plans (Tr. 147-48). After discussions among Coan, Shippee, chairman of Prudential, Willey, president of Prudential, and Young, a chemical engineer who agreed to work with them (Tr. 154), Prudential agreed to participate (Tr. 148-54). On October 22, 1962, Shippee and Young met with Chapman, Coan and representatives of Kuhn Loeb, Warburg and other investment bankers. Coan sent a report of the meeting to Ivan Irizarry, a subordinate of Jesus Diaz-Hernandez, director of continental operations of EDA (Tr. 916). Diaz wrote across the top of the letter "Ivan: This must be the last chance for C[hapman] and C[oan]. Too many promises: no action. Let's see" (E 310-312, Tr. 921).

Shippee was then a business associate of Robert B. Anderson, former Secretary of the Treasury of the United States (Tr. 155-56, 746-47). At the time, Anderson was paid a yearly retainer of $50,000 to $75,000 by Phillips to bring to its attention new projects and investment opportunities (Tr. 750-51, 971-73), although Shippee and Willey did not know it (Tr. 542, 625). Shippee and Willey discussed the project with Anderson (Tr. 156, 748-49). Anderson said that the first requirement was an import quota and that to make a presentable case to the Oil Import Board it would be necessary for Prudential to have as a

partner a large oil company with experience and financial capability to build a plant and manufacture the product and utilize part of it (Tr. 749, 775). Anderson suggested Phillips and Prudential agreed (Tr. 159-60, 749-50).

Anderson then spoke to Stanley Learned, Phillips' president (Tr. 753-54), and asked Learned if Phillips would like to join Prudential in the development of the plant (Tr. 773). Learned said that he thought Phillips would be interested (Tr. 773-75). Several days later, Learned wrote Prudential a letter (Tr. 167-68, E 998), which stated in pertinent part:

> "In connection with the Puerto Rico Oil and Petrochemical Company's petrochemical complex to be built in Puerto Rico, Phillips Petroleum Company is prepared to:
>
> * * *
>
> "3—Counsel with you and assist, if you wish, in the design and construction and operation of the proposed facilities."

4. *Prudential's Work with Phillips and EDA*

Prudential then began developing the project (Tr. 177, 186-87, 629) and held meetings with various chemical and oil companies seeking, as Brown had done, commitments to buy the petrochemical output of the project (Tr. 177-78, 625-27). Like Brown, Prudential was unsuccessful in this endeavor (Tr. 178). Prudential also held meetings with representatives of EDA, both in New York and Puerto Rico (Tr. 190-93, 200-01, 622, 625-26, E 999-1000), and reported to Anderson on their progress (Tr. 205, 253; E 1002-03, 1008).

Pursuant to Phillips' commitment to counsel and assist Prudential (Tr. 245-46, 1359), from December 1962 through March 1963 Shippee, Young and Willey held frequent meetings with Miller Conn, Manager of Sales and Development Division, International Department, Fischbeck, Manager of Project Development, International Department, and other executives representing Phillips (Tr. 197-200, 206, 259-60, 264, 628, 818, 822, 842,

887, 968-70, 1358-59, 1361-62, E 1004-05). They also held frequent telephone conversations with them (Tr. 207-08, 887, 1372-73).

The parties discussed all aspects of the project, including marketing and economic data (Tr. 226-27, 252-53), the information to be included in the application for an import quota (Tr. 252-53), the source and nature of the feedstock for the proposed project (Tr. 207, 257-59, 307, 839, 1436, E 1009-10), and the products to be produced (Tr. 1362-63). Prudential disclosed to the Phillips representatives all of their ideas and concepts concerning the development of the project, including a brochure which Produential had prepared containing those concepts (Tr. 209-10, 222-23, 255-56; E 1052-1179). Fischbeck consented to be listed as an officer of the corporation which was to operate the facility and made corrections in Prudential's brochure, including a description of himself. (Tr. 224, 226-27, 1411, 1423-24; E 1095).

5. *The Development of Prudential's Concepts for the Project*

Prudential quickly realized that it would not be possible to obtain firm commitments from users of petrochemicals to purchase products of the facility before it was built (Tr. 629). They then tried to recast the project to overcome this difficulty but nevertheless convince EDA and the Department of Interior that the project was not simply another refinery, which would not qualify for an import quota. Prudential proposed to EDA (1) that although the project be designed to produce a maximum amount of petrochemicals, it be sufficiently flexible to produce larger amounts of petroleum fuels, if necessary, until users of petrochemicals be established as satellites around the core refinery; (2) that the core refinery be a "quasi public utility" to serve such industries on the basis of giving industries established in Puerto Rico the right of first refusal on products of the core; (3) that the promoters of the venture work with EDA and the Puerto Rican government to encourage investment in satellites; and (4) that instead of seeking previous commitments from a

chemical user, the application be made and the core be constructed before the establishment of satellites (Tr. 202-03, 490, 629, 632-33; E 1059, 1060-61, 1062, 1084, 1085-86, 1090, 1184, 1185-86, 1187, 1207, 1208-09, 1211).

These ideas were submitted to Diaz-Hernandez, the director of continental operations of EDA (Tr. 916, 923-24). In light of Phillips' continued pretense in this Court of not understanding Prudential's concepts and of claiming that the testimony of plaintiff's witnesses was unclear and contradictory, it should be pointed out that Diaz understood the concepts and related them succinctly at the trial (Tr. 923-24). Moreover, as will be seen below, Phillips' understanding of those concepts is evidenced by its incorporating them into its project.

All of these ideas, which Diaz and EDA found attractive (Tr. 924), were set forth in the brochure which Prudential prepared and gave to Fischbeck as well as to EDA (Tr. 226-27; E 1059, 1060-61, 1062, 1084, 1085-86, 1090, 1184, 1185-86, 1187, 1207, 1208-09, 1211).

Diaz, however, told Prudential that the plan had two weaknesses, first that the report contained no marketing studies and second, that for the project to be accomplished Prudential would have to associate itself with a large oil company as a principal, not merely a supplier selling feedstock to the facility (Tr. 925-26).

6. *Phillips Pretends to Withdraw from the Project*

At a meeting in March 1963, Prudential told Phillips that the report would need additional marketing and economic data, which Fischbeck agreed to supply (Tr. 260, 1374; E 1011, 1013). Shippee also told Fischbeck that Phillips would have to play a more important role and apply for the quota in its own name (Tr. 264-66, 1444). Fischbeck, while continuing the guise of cooperating with Prudential and agreeing to provide marketing data, in fact attempted to slow down the project by writing a letter to his superiors asking for instructions (Tr. 1445; E 1010-13).

In April 1963, William Keeler, executive vice-president of Phillips, advised Chapman that Phillips was not interested in pursuing the project further until Prudential obtained a quota (E 1014, 1018). It is apparent that at this point, Chapman and Phillips were commencing a plan to exclude Prudential. Chapman did not tell Shippee of his meeting with Keeler and instead encouraged Shippee to have Prudential complete its brochure and send it to him (E 1016). It was not until Shippee wrote to Fischbeck asking him for the marketing data (E 1017) that Prudential was told of Phillips' decision to withdraw from the project (E 1019).

On May 29, 1963, Shippee sent Chapman three copies of the brochure which Prudential had prepared (E 1021, 1180 *et seq.*).

7. *The Meeting of July 1963*

Shippee again appealed to Anderson to reenlist Phillips' interest in the project, at least to the extent of preparing the critical marketing data (E 1020). As a result, a meeting was held at Anderson's office early in July at which Anderson, Chapman, Shippee and Coan were present, to discuss the project (Tr. 313-14, 318-17, 754-55). It was agreed that Anderson would maintain contact with Phillips; Chapman would handle the application for the import quota in Washington, D. C., and Prudential would attempt to interest chemical companies in establishing satellite plants for the core facility (Tr. 316-17, 755).

Shortly after the meeting, Shippee was seriously injured in an airplane crash in Rochester, New York (Tr. 319).

8. *Phillips' Misappropriation of Prudential's Ideas and Concepts*

Learned testified that in early August, he received a telephone call out of the blue from Chapman, whom he had never previously met (Tr. 1554). Chapman advised Learned that an import quota might be obtained for the project and Learned expressed interest (A 47). Phillips then continued its plan to exclude Prudential and take advantage of Shippee's injuries. On August 7, 1963, Chapman and Michael Shea, an associate of Chapman, met with

Conn and Carstens Slack of Phillips (A 47-48). In a memorandum he made of the meeting, Shea stated that the meeting "was a result of Mr. Chapman's conversation with Bob Anderson in New York City" (E 316), an obvious reference to the July meeting among Anderson, Chapman and Shippee. Chapman gave Conn "a copy of the present study" (E 316), *i.e.*, the Prudential brochure which Shippee had sent to Chapman on May 29 (E 1180 *et seq.*, 1442 *et seq*).

Conn gave the copy of Prudential's brochure to Roy Waldby, who was then Conn's subordinate, but who was to become the chief executive of Phillips' Puerto Rican project (Tr. 1664, 1666-67, 1709, 1710). Conn told Waldby to keep the Prudential material confidential, the first time that Waldby had been given such an instruction by Conn (Tr. 1667, 1714). Conn's memo of the meeting with Chapman and Shea said that Phillips would undertake a marketing and engineering study of the feasibility of the project and develop a "brochure application for presentation to the Department of Interior" (E 1847).

Waldby, at the time he received Prudential's brochure, had never previously had anything to do with the presentation of an application for an import quota to any goverment agency, had never been to Puerto Rico and knew "very little" about Puerto Rican petrochemical facilities (Tr. 1709). Moreover, although Waldby had given a deposition before trial and had even corrected his deposition by affidavit, he had never previously admitted until the trial itself that Prudential's brochure was the document Conn had given him in August 1963 (Tr. 1710-11). Waldby's original denials were part of an attempt by Phillips throughout pre-trial discovery to conceal its theft of Prudential's concepts.

Waldby studied Prudential's brochure (Tr. 1711-12) and met with Conn, Fischbeck and other Phillips executives assigned to the project (Tr. 1451-52). They expressly discussed "Shippee's ideas" (Tr. 1452). Waldby, who was in charge of the project for Phillips, admitted that he did not invent any concepts at all with respect to the Puerto Rican petrochemical complex (Tr. 1720).

9. *Phillips' Use of Prudential's Ideas and Concepts in Obtaining the Quota and Promoting the Project*

Phillips retained Chapman and Coan to work on the project (A 48; E 321-22). On December 16, 1963, Learned sent a letter to Durand, the administrator of EDA, proposing that Phillips undertake to construct a core petrochemical refinery in Puerto Rico (A 48; E 323-25). This letter proposed that the facility lay the basis for future investment in plants to utilize the petrochemicals produced and convert them into consumer goods. No prior agreements with petrochemical users were to be made, Phillips merely offering to market the petrochemicals outside of Puerto Rico until satellites could be developed on the island. Phillips also proposed to support and encourage investment in such satellite plants (E 323-25). These same proposals had been made to EDA by Prudential in December 1962 or January 1963 and EDA had found them attractive (Tr. 923-24). The proposals had been included in Prudential's brochure which was discussed with Fischbeck and which Fischbeck had reviewed, corrected and had copied (Tr. 224-27, 501-04, 1458-59). This same brochure had been given to Conn by Chapman and Waldby used it as the basis for his consideration of a Puerto Rican petrochemical project (Tr. 1711-12; E 1180 *et seq.*, 1442 *et seq.*).

In January 1964, Phillips prepared a brochure, two copies of which were submitted to EDA, which contained sentences copied verbatim from Prudential's previous brochure (A 49; E 333, 334, 335, 336, 355, 1182, 1184-85, 1210, 1217, 1242). Prudential does not claim that those particular sentences contained the concepts stolen by Phillips from Prudential. The point is that such verbatim copying proves conclusively both access by Phillips to Prudential's brochures and Phillips' intent to make use of Prudential's previous work.

In January 1964, Chapman filed a petition for an import quota on behalf of Phillips with the Oil Import Appeals Board (A 50). The brochure of January 1964 (E 331 *et seq.*) was revised by Waldby on the basis of suggestions from Van Hyning, an EDA advisor (Tr. 1311-13, 1698-99).

The final draft of this brochure was submitted by Phillips in support of the application for the quota (A 50-51, Tr. 1703). That brochure not only contained Learned's letter of December 16, 1963, but re-emphasized the importance of proceeding with the core refinery *before* commitments were obtained from petrochemical users. It also picked up the idea of a flexible facility, which had also been one of Prudential's original concepts. Thus, the brochure stated that since petrochemical markets change continuously, specific products could not be predicted for several year in advance (E 468-69).

Phillips continued to utilize Prudential's idea of flexibility as the facility was planned and built. In a marketing summary prepared in April 1965, Phillips attached a proposed Puerto Rican sales schedule (Table I), which showed a consistent decrease in the motor fuel produced from 1971 through 1974 with corresponding increases in petrochemicals (Tr. 2179, Def. Ex. 205, Table I).* Indeed at trial, Waldby conceded that the core plant was designed to be flexible and could increase or decrease the amounts or types of product (Tr. 1751-52, 1759-60).

Keeler, in testimony before the Oil Import Administration, also reiterated Prudential's idea that the core refinery would have to be built without prior commitments from petrochemical users, who would thereafter be attracted to Puerto Rico (E 600).

Finally, Prudential had proposed that the feed streams of petrochemicals be kept on the island wherever possible to encourage investment by consumers of Puerto Rico either by having the core plant be a "quasi public utility" or by requiring it to give the right of first refusal to any Puerto Rican consumer before shipping the product elsewhere (Tr. 923-24). This concept also became part of the project as developed by Phillips and was included in the agreement of May 1965 between Phillips

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* The tables to this exhibit, E 18[illegible] *et seq.*, were omitted from the Joint Appendix, although appellee designated the entire exhibit for inclusion therein. The complete exhibit will be submitted to the Court at the time of argument.

and EDA, upon the basis of which the quota was finally approved (E 1005-06).

10. Prudential's Exclusion from the Project by Phillips

While the application was pending, Prudential continued to maintain contact with Anderson and attempted to establish interest in satellite plants (Tr. 320-21, 336-38, 357, 785). In July 1964, Prudential arranged to have Anderson discuss with Durand, head of EDA, his testimony before the Oil Import Board in support of Phillips' quota application (E 1033-34), which Anderson did (Tr. 756, 930). At that time, both Anderson and Diaz believed that Prudential was still a participant in the project (Tr. 934; cf. Tr. 758-59, 791-93).

In January 1965, however, shortly before the announcement by the Department of the Interior that it would recommend approval of a quota on the basis of an agreement to be negotiated by Phillips and EDA (A 53-54; E 803-04), Shippee and Willey held a meeting with Learned in Oklahoma (Tr. 359-62, E 1035-36). Learned rejected a proposal by Shippee for Prudential's participation in the project (E 1042).

Adams and Learned thereafter came to New York to see Anderson and told him for the first time that after working with Prudential for more than two years, Phillips would follow an independent course—in other words that Prudential would be excluded from all participation (Tr. 758-59).

11. *Prudential's Attempts to Reach Accommodation with Phillips*

In 1965 and 1966, Prudential, both through Anderson and directly, made extensive efforts to reach some agreement with Phillips. Even after Learned's original rejection in January 1965, Shippee met with Waldby concerning a satellite plant (E 1043-46). In early 1966, Shippee, Willey and Young met with Johnstone, who was in charge of developing petrochemical satellites for Phillips, and again made a proposal for Prudential's participation (Tr. 1621-22, 1626-27, 1629-30; E 1047-50). This too was rejected.

Anderson attempted to reconcile the differences between the parties and arranged a meeting in May 1966 but Phillips denied any obligation to Prudential (E 1051). Anderson again tried to promote an agreement at a meeting between Learned and a director of Prudential late in 1966 (Tr. 770-71). All of these efforts were unsuccessful.

12. *Profits of Phillips' Core Facility*

In December 1965, the oil import regulations were amended to provide Phillips with a quota for its core project (A 57-58). The facility was completed in 1967 and began operation in early 1968. From 1967 through 1975, its net profits were $108,000,000. Phillips anticipates that from 1975 through 1979, the core facility will earn from $10 to $15,000,000 per year, an additional $40 to $60,000,000 (Tr. 1649-50; E 1687-98).

13. *Reorganization of Prudential*

The facts concerning the reorganization of Prudential were not litigated at trial. They were established by the unrebutted affidavit submitted by Shippee in opposition to Phillips' motion to dismiss for lack of jurisdiction. Phillips waived an evidentiary hearing on the issue (A 474).

Prudential was originally organized as a Connecticut operation on October 29, 1959, for the purpose of offering participations in oil and gas drilling exploration and development programs. In October 1962, it moved its principal office from Connecticut to New York City. New York continued to be the principal place of business of Prudential and of every successive Prudential company and remains so today (A 248-49).

In early 1965, after expansion of the business of the company, counsel to Prudential recommended that it be reorganized as a Delaware corporation (A 249). Prudential Oil corporation was formed as a Delaware corporation on March 1, 1965 ("Prudential Delaware"). The assets and liabilities of Prudential (Connectcut) were transferred to Prudential Delaware as of June 30, 1965, and it was dissolved (A 249, 308-10).

14. *The History of Prudential Delaware*

After the formation of Prudential Delaware, the directors planned to diversify the company's business through creation of subsidiaries and to convert Prudential Delaware into a holding company. A directors meeting of Prudential Delaware on September 8, 1965, two years before this action, outlined this plan (A 250, 322). Prudential Delaware had already utilized subsidiaries for specific single function purposes (A 250-51). At another meeting on October 19, 1965, the Prudential Delaware directors discussed the organization of subsidiaries to perform specific functions (A 251, 252, 327-28).

At a board meeting on April 27, 1966, the directors reviewed plans for other diversified interests of Prudential Delaware. It approved the incorporation of America House, Inc. in Spain as its wholly-owned subsidiary for developing real estate interests in Madrid. In addition, it approved the formation of another subsidiary called Prudential Polymer Co., organized under the laws of Puerto Rico, for the purpose of engaging in activities in connection with the Phillips' petrochemical complex being constructed there (A 251-52).

15. *Plans for a Public Stock Offering and a Total Reorganization of Prudential Delaware*

The business of Prudential Delaware had continued to expand and additional financing was necessary both for investment as a participant in additional drilling funds and to lend money to outside participants in the funds. The best apparent source of this financing was a public stock issue (A 252).

The concept developed to facilitate a public offering was the restructuring of Prudential Delaware completely by placing all of its various interests into separate subsidiaries leaving Prudential Delaware as a holding company owning stock in its various subsidiary corporations, but neither operating nor engaging in any business on its own account. The public offering would be made through one subsidiary, which would have only the in-

terests in the drilling funds. In order to simplify legal and accounting problems and to attract public purchasers of its stock, the proposed public subsidiary was to be kept free of any other ventures or contingent assets such as the Puerto Rican petrochemical project, the Madrid complex and other as yet unrealized ventures (A 252-53, 338-44).

On June 29, 1966, fifteen months before this action was commenced, the complete reorganization of Prudential Delaware was formally approved at a directors meeting. First, Prudential Delaware transferred all of its assets relating to its business in the management of oil and gas drilling funds to a newly formed subsidiary, Prudential Drilling Funds, Inc., in exchange for the stock of that subsidiary, whose name was to be changed to Prudential Funds, Inc. (A 254, 356-57).

Second, the name of Prudential Delaware was changed to Prudential Equities Corp. to reflect more accurately its status as a parent holding company (A 254, 357-58).

Third, the interest of Prudential Delaware in the venture with Phillips in Puerto Rico and the rights, obligations and claims arising therefrom were transferred to Prudential Oil Corporation, a subsidiary to be created under the laws of New York (Prudential New York, the plaintiff here). The corporation was to be formed in New York because the principal place of business of all of the Prudential corporations was in New York and there was no special reason for foreign incorporation of this subsidiary (A 254, 358-59).

Fourth, another separate subsidiary corporation of Prudential Equities (Prudential Delaware) was created with the single function of acting as nominee to hold title to the leasehold or other interests of Prudential Drilling Funds in order to facilitate the filing and transfer of real property interest of the funds. This corporation, which was to be known as Prudential Land Company, Inc., was also to be a New York corporation, where its principal place of business was located (A 255, 360).

On July 13, 1966, the stockholders of Prudential Equities approved the above plan. Prudential Equities was left as a bare

holding company (A 255, 365). Prudential Funds, which was to be the vehicle for the public offering, held only the interest of the drilling funds and the financing corporation for such interests. The remaining interests of Prudential Equities were all placed in separate corporations as follows: Prudential Land Company, Inc. (a New York corporation); plaintiff Prudential Oil Corporation (a New York corporation); America House, Inc. (a Spanish corporation); and Prudential Polymer Co. (a Puerto Rican corporation (A 255-56, 366-89).

After lengthy negotiations, the first public offering of the stock of Prudential Funds was made in 1968. The first form S-1 registration statement was submitted to the Securities and Exchange Commission on October 16, 1968, and the prospectus was effective on December 13, 1968. Because the reorganization achieved its purpose of stripping Prudential Funds to its essentials, no reference was made in that prospectus to the Phillips Puerto Rican venture or to the litigation with Phillips, which had commenced in September 1967 (A 256-59, 390, 391 *et seq.*).

Continuously since 1962, New York has been the location of the principal offices of all Prudential corporations. The management and counsel of Prudential corporations have continued to incorporate other subsidiaries and affiliates in New York, including Teldata Systems Corporation, incorporated on August 10, 1973, and Pilgrim Telecommunications Corp., incorporated on August 21, 1973. This has been for no reason other than that New York was the principal place of business and no legal or practical reason appeared to require incorporation in another state (A 258-59).

B. The Proceedings Below

1. *The Complaint*

The complaint set forth four claims. One, that a joint venture had been formed between Phillips and Prudential from which Prudential had been unlawfully excluded; two, that the actions of the parties gave rise to a confidential relationship between the

parties and that Phillips had misappropriated Prudential's ideas and concepts with respect to the project, in violation of that relationship; three, that Phillips, by its representations and actions, defrauded Prudential into disclosing its ideas and concepts; and four, that in reliance upon Phillips' representations and actions, Prudential had refrained from pursuing the project for its own benefit. The complaint sought equitable relief and damages.

It is untrue, as stated by Phillips (Brief p. 3), that the claim of misappropriation was asserted by plaintiff for the first time after the District Court dismissed Prudential's claim of a joint venture. That claim, like the business concepts themselves (see ¶19 of the complaint, A 8-9), was in the complaint when it was filed in September 1967. Indeed, one of the major grounds upon which Chief Judge Edelstein denied Phillips' motion to strike plaintiff's jury demand was that the gist of the entire complaint was misappropriation. He said:

> "More importantly, without attempting to determine whether there exists only one claim in this case, despite such attempts by both parties, there appears first and foremost and throughout all of the claims which are, essentially, based upon the same set of facts, the allegations that Defendant has, either by the breach of a confidential relationship or through deceit, misappropriated to its own benefit and to the detriment of Plaintiff certain trade or business information developed by Plaintiff." 392 F. Supp. at 1022 (A 137).

2. *Pre-trial Proceedings*

The suggestion in Phillips' brief (Brief p. 3) that this case was not seriously litigated is ridiculous. Any delay in this action was directly due to Phillips' piecemeal discovery and motion practice, not to plaintiff.

Phillips answered on October 19, 1967, including among its affirmative defenses the assertion that federal jurisdiction was collusive in violation of 28 U. S. C. § 1359. It then noticed five depositions, including those of Shippee, Willey and Young, and

made two sweeping demands for documents. By stipulation dated December 19, 1967—apparently extracted by Phillips as the price of any adjournment of the depositions of Prudential's witnesses—the parties agreed that Prudential's deposition of Stanley Learned, Phillips' president, would not commence until after Phillips completed the depositions it had noticed (A 100). From then, until October 1971, Phillips took twenty-one separate sessions of depositions, which were interrupted by the absence of Phillips' chief counsel, Robert MacCrate, who went to Vietnam for nearly six months in 1969 and 1970 to investigate and report on the My-Lai massacres.

In addition, Phillips inspected Prudential's extensive documents, propounded two sets of interrogatories (and an amended set), made a demand for admissions, served written questions to be propounded to Oscar Chapman and noticed the deposition of A. D. Little & Co., which had been consulted by EDA and Prudential with respect to the project.

During the same period, plaintiff made two requests for document production, propounded interrogatories to Phillips and served cross-questions to be propounded to Chapman. Commencing in February 1972, after Phillips had concluded the depositions it originally noticed in 1967, plaintiff took twelve depositions in New York and at Phillips' headquarters in Bartlesville, Oklahoma. In late 1972, Phillips announced that it wanted to take further depositions and between December 1972 and September 1973 took nine depositions in New Orleans, Louisiana, San Juan, Puerto Rico, Des Plaines, Illinois and New York.

On October 1, 1973, Phillips moved to strike plaintiff's jury demand. This motion was argued in December 1973 and decided in April 1975. Meanwhile, in January 1974, despite the fact that the deadline for discovery had expired in September 1973, Phillips made another motion and was permitted to take still another deposition. In January 1975, Phillips also propounded interrogatories to plaintiff concerning its expert witnesses.

Finally, on April 3, 1975, nearly seven years after it had first asserted the defense, Phillips moved to dismiss on the ground

that diversity jurisdiction was the result of a collusive assignment in violation of 28 U. S. C. § 1359 (A 140). Judge Brieant, to whom the case had then been assigned, denied the motion by an order entered July 7, 1975, but certified the question of jurisdiction for interlocutory appeal to this Court pursuant to 28 U. S. C. § 1292(b) (A 491-92). This Court declined to take the interlocutory appeal by order dated August 13, 1975 (A 493).

3. *The Trial and Post-Trial Proceedings*

After a three week trial, the jury, on January 27, 1976, returned its verdict. Seven special interrogatories were framed for submission to the jury. The relevant interrogatories, and their answers, were:

> Did Prudential Connecticut, acting through Mr. Shippee, Mr. Willey and/or Mr. Young develop and own a legally protected business concept, as the Court has defined that term, relating to the establishment of a petrochemical core plant in Puerto Rico?
>
> Yes.
>
> Did Phillips obtain disclosure of this legally protected business concept as a result of a relationship of trust and confidence with Prudential Connecticut?
>
> Yes.
>
> Did Prudential Connecticut disclose its concept, if any, to Phillips, or make a contribution of ideas or services relating to the development of those ideas, as a result of a "contract implied in fact," as the Court has defined that term, that existed between Prudential Connecticut and Phillips?
>
> Yes.
>
> Did Phillips use Prudential's legally protected business concept or contribution of ideas or services relating to the development of those ideas of Prudential Connecticut in the petro-chemical facility actually constructed in

Puerto Rico or in any application or presentation necessary to effect its construction?

Yes.

The amount of damages awarded to Prudential is?

1.5 million.

On what date did Phillips misappropriate the ideas of Prudential in violation of a confidential relationship, or take such ideas pursuant to a contract implied in fact?

December 16, 1963. (Tr. p. 2315-16)

Phillips then moved for judgment notwithstanding the verdict. After computing interest, Judge Brieant, on March 2, 1976, entered a judgment for $2,690,968.70 with costs to be taxed, and also entered findings of fact and conclusions of law (A 514-23). On March 3, 1976, he denied Phillips' motion for judgment notwithstanding the verdict (A 503-13). Following its usual, piecemeal practice, Phillips then moved, on March 12, 1976, for a new trial and to amend the judgment. This motion was denied on March 25, 1976, and on April 23, 1976, Phillips filed its notice of appeal (A 525-26).

ARGUMENT

I

Federal Jurisdiction Was Not Collusive Or Barred By 28 U. S. C. § 1359.

In arguing that federal jurisdiction was collusively manufactured in violation of 28 U. S. C. § 1359, Phillips misstates the law and then criticizes the District Court for failing to follow Phillips' misstatement. Moreover, Phillips is unable to point to one shred of evidence that jurisdiction was created collusively. In fact, the unrebutted evidence, including contemporaneous documents, is directly to the contrary.

A. The Applicable Law

For a correct statement of the purpose and effect of § 1359, one need hardly go farther than *Kramer* v. *Caribbean Mills, Inc.*, 394 U. S. 823 (1969) and *O'Brien* v. *Avco Corp.*, 425 F. 2d 1030 (2d Cir. 1969). In the *Kramer* case, the Supreme Court stated that the question to be determined when a transfer is attacked under § 1359 is whether the transfer is a mere contrivance, a pretense, a collusive arrangement to create federal jurisdiction, 394 U. S. at 827. In *Avco*, at p. 1034, Chief Judge Kaufman stated, "The purpose of Section 1359, however, was to prevent agreements whose primary aim was to vest the court with a jurisdiction it had not formerly enjoyed."

Phillips misstates the holding of the *Avco* case and argues that an assignment is collusive under § 1359 unless the plaintiff can prove there was *no* motive or object to create federal jurisdiction. In support of this position it cites a proposed recodification of federal diversity statutes by the American Law Institute which provided that "wherever an object of a sale, assignment, or other transfer of the whole or any part of an interest in a claim or any other property has been to enable . . . jurisdiction of a civil action shall be determined as if such sale, assignment or other transfer had not occurred." Even if this proposal were the law, it would not affect the result here, because there is no evidence that *any* object of the transfer to Prudential New York was to enable plaintiff to invoke federal jurisdiction and the uncontradicted record demonstrates that the assignment was part of a total reorganization for business purposes completely unrelated to jurisdiction in this action. In any event, Judge Kaufman expressly disavowed the A. L. I. proposal as having the effect of law, stating, "we do not deem it wise to create by judicial legislation the equivalent of the American Law Institute proposals. . . ." See 425 F. 2d at 1035.

Thus, although the *Avco* case is probably the broadest reading that any reported decision has given to § 1359, it emphatically makes the distinction which Phillips is trying to obliterate here. The question is the *primary* aim of the assignment and

unless the *primary* aim of the assignment was to invoke federal jurisdiction, the assignment is not collusive.

In the *Avco case*, as in *Kramer* v. *Caribbean Mills, supra*, *Miller & Lux, Inc.* v. *East Side Canal & Irrigation Co.*, 211 U. S. 293 (1908) and *Lehigh Mining & Manufacturing Co.* v. *Kelly*, 160 U. S. 327 (1895), either the plaintiff conceded that the primary intent of the assignment was to invoke federal jurisdiction, see 394 U. S. at 827-28 and 160 U. S. at 329, or the assignment itself or the expressed purpose of its making showed that intent, see 211 U. S. at 298 and 425 F. 2d at 1036. We have found no case, however, in which a transfer made for legitimate business reasons has been found to be an invalid under § 1359 merely because one of the effects of the transfer—or indeed, one of the *secondary purposes* of the transfer—has been to create federal jurisdiction. In fact, the cases are directly to the contrary. See *Saalfrank* v. *O'Daniel*, 390 F. Supp. 45 (N. D. Ohio 1975) at 54-55; *Aanestad* v. *Air Canada, Inc.*, 382 F. Supp. 550 (C. D. Cal. 1974) at 553; *Farrell* v. *Ducharme*, 310 F. Supp. 254 (D. Vt. 1970) at 261-62; *National Surety Corp.* v. *Inland Properties, Inc.*, 286 F. Supp. 173 (E. D. Ark. 1968) at 184, *aff'd* 416 F. 2d 457 (8th Cir. 1969). Even where an assignment has been held to be collusive under § 1359, it has been recognized that an assignment for legitimate commercial reasons would be valid. See *Green & White Construction Co.* v. *Cormat Construction Co.*, 361 F. Supp. 125 (N. D. Ill. 1973) at 128.

Phillips asserts that *Kramer* overruled *National Surety Corp.* but this claim rests upon the same misreading of *Kramer* which Phillips gives to *Avco, i.e.*, that any assignment creating federal jurisdiction is collusive under § 1359. But, like *Avco, Kramer* held only that an assignment whose *primary motive* was the creation of federal jurisdiction was collusive. Thus, the law remains that an assignment made for legitimate business reasons is not collusive under § 1359.

Not only has Phillips' version of the law been rejected by the courts, but it would be completely impractical if it were adopted. The effect of Phillips' proposal would be to require the courts to

re-examine intimately the transactions of every litigant who is claimed to have based federal jurisdiction upon a collusive assignment.

Phillips' criticisms of the "permissive standard" of the District Court give only a hint of the rich source of arguments available to an imaginative and powerful defendant claiming that jurisdiction was collusive. In almost every case the defendant would argue, as Phillips does here, that the transaction—no matter how legitimate or reasonable—could have been effected without creating federal jurisdiction. The more complicated the transaction, the greater the opportunity for such niggling. Yet the fact that federal jurisdiction exists at the conclusion of a business transaction would not of itself constitute proof that that was a *motive* for the transaction. Indeed, the more complicated the transaction and the broader the objective sought to be achieved, the less likely is it that the transaction was concerned with the creation of federal jurisdiction.

The only practical way to administer Phillips' proposed rule would be to dismiss all actions where the *effect* of a transfer was to create federal jurisdiction, regardless of the motive. But as the cases above make clear, § 1359 has never been read in that way and even the American Law Institute did not make such a radical proposal, undoubtedly for good reason. Such a rule would bar from the Federal courts litigants who should properly be there. Protecting the Federal courts from unwarranted actions based upon sham assignments is an important public policy but it does not override the constitutional and statutory provisions permitting access to the Federal courts on the basis of diversity of citizenship. Cf. *Thermtron Products, Inc.* v. *Hermansdorfer*, U. S. , 96 S.Ct. 584, 589-90 (1976). Only Congress could make such a judgment and, to date, it has refrained from doing so.

B. The Applicable Facts

Even if Phillips' statement of the law were correct, it would not have affected the result here. There is not a *scintilla* of evi-

dence that any motive of the assignment in question was to create federal jurisdiction. Plaintiff's uncontradicted statements expressly denied any such motivation and its denial was unrebutted (A 248, 256, 257). Moreover, these statements are supported by contemporaneous documents evidencing the legitimate business purposes of the assignment. Phillips rejected a hearing to controvert these statements and documents or to cross-examine concerning them (A 445-47, 450, 474).

Having rejected a hearing to contest plaintiff's sworn statements on the reasons for the reorganization—probably for the very reason that it feared an adverse ruling precluding the arguments it makes here—Phillips now resorts to mere speculation as to plaintiff's motives. Even Phillips' speculations are completely unconvincing and based on a misreading of the record facts.

The undisputed facts are that some fifteen months before the commencement of any litigation, the directors of Prudential Delaware wanted to isolate Prudential Funds from all of Prudential Delaware's speculative interests in order to prepare for a public offering, to convert Prudential Delaware into a bare holding company, and to put each of Prudential Delaware's interests into single purpose subsidiary corporations. These are clearly legitimate, bona fide business objectives. Moreover, where feasible, the creation of New York corporations was more logical because the offices, officers, employees and counsel of all of the Prudential corporations were in New York City. Only where there were good legal or business reasons for doing so were corporations formed in jurisdictions outside of New York.

Having sought to accomplish those objectives, there is no reason why the directors of Prudential Delaware—whose offices were in New York—should have chosen only Delaware corporations for these purposes simply because the creation of a New York corporation would create diversity in a future litigation which might never take place. Phillips' statement that the objective of creating a corporation for the public offering was achieved prior to the assignment to plaintiff not only overlooks another objective of the reorganization plan—the separation of Prudential

Delaware's interests into separate, single purpose corporations—but is belied by the record. As Phillips' own citation shows (A 34-35), the entire transaction was approved by the corporate directors at the same time and was a single, overall plan. Moreover, the reason that the public offering did not take place until 1968 is set forth in Shippee's unrebutted affidavit (A 256-57): the underwriters were not satisfied with the probable success of a public offering until then.

Phillips' assertion that after May 1966 plaintiff sought to achieve its goal of a participation in the Puerto Rican venture only by litigation is absurd. Plaintiff made repeated attempts to compromise its differences with Phillips at least throughout 1966 (Tr. 770-71). Obviously, litigation with a company as large and powerful as Phillips could only be a last resort. In any event, it beggars the imagination to believe that the directors of Prudential Delaware would create five separate corporations, transfer separate assets to each corporation, plan a public offering of the stock of one of the corporations, which offering was subsequently accomplished, and reduce Prudential Delaware to a bare holding company in order to create federal jurisdiction over a litigation which was not commenced until fifteen months later. In short, Phillips' claim that "the particular object of the assignment of the claims in suit was to make a Federal forum available" (Brief p. 28) is not only unsupported but is destroyed by the uncontested record.

The ruling of the District Court holding that the assignment was not collusive and denying Phillips' motion to dismiss for lack of jurisdiction was correct and should be affirmed.

II

The Jury's Verdict Is Supported By Overwhelming Evidence.

Phillips' lengthy attack on the sufficiency of the evidence is nothing more than a rehash of arguments more properly made to the trier of fact and were rejected by the jury and by the District

Court in repeated post-trial motions. It is well established that this Court will not weigh the evidence and redetermine facts found by the jury, *Atlantic & Gulf Stevedores, Inc.* v. *Ellerman Lines, Ltd.*, 369 U. S. 355, 358-59, 82 S. Ct. 780, 783 (1962), *reh. den.*; see *Lavender* v. *Kurn*, 327 U. S. 645, 652-53, 66 S. Ct. 740, 744 (1946), and will view the evidence in the light most favorable to the appellee and give that party the benefit of all inferences which the evidence fairly supports, even though contrary inferences might be drawn. *Continental Ore Co.* v. *Union Carbide & Carbon Corp.*, 370 U. S. 690, 696, 82 S. Ct. 1404, 1409 (1962); *Lebrecht* v. *Bethlehem Steel Corp.*, 402 F. 2d 585, 589 (2d Cir. 1968); *Diapulse Corp. of America* v. *Birtcher Corp.*, 362 F. 2d 736, 743-44 (2d Cir. 1966), *cert. dism.*, 385 U. S. 801, 87 S. Ct. 9 (1966). In any event, the evidence in support of the jury's verdict here was overwhelming.

The evidence establishes that Prudential, with other members of the group, including Coan and Chapman, proposed to promote the petrochemical project (Tr. 169-70, E 310-12); that Phillips committed itself to assist Prudential in furthering the project (E 998); that in working on the project, Prudential developed concepts which would enable the project to obtain an import quota which had theretofore appeared impossible (Tr. 923-24); that Prudential put those concepts in a brochure, reported them to EDA and disclosed both the ideas and the brochure to Phillips (Tr. 209-210, 222-23, 255-56, 923-24, E 1052 *et seq.*); that Phillips took the brochure and corrected and copied it (Tr. 501-04, 1458-59); that Chapman gave a copy of the brochure to Conn who, with Waldby, used it as the basis of an application for a quota (A 47-48; E 316, 1847; Tr. 1666-67); that in applying for and obtaining the quota Phillips used each of the concepts developed by Prudential (A 48; Tr. 1751-52, 2179; E 323-25, 463-64, 468-69, 600, 905-06; Def. Ex. 205, Table I); that Phillips knew that Prudential had developed the concepts and prepared the brochure with the intention of promoting and having an interest in the project (see E 1094-95, 1126, 1215-17, 1244, 1478-80, 1511); that after the application for the quota was about to be approved, Phillips excluded Prudential from all

interest in the project (Tr. 758-59, 770-71; E 1051); and that the project has earned Phillips $108,000,000 through 1975 and is projected by Phillips to earn an additional $60,000,000 through 1979 (Tr. 1649-50; E 1687-98).

In the face of this evidence—which Phillips knew from the date the action was brought—Phillips first tried a cover-up. Waldby, in both his deposition and his affidavit correcting his deposition, denied ever seeing Prudential's brochure (Tr. 1710-11). Keeler, Phillips' executive vice-president, when asked to explain the exact copying from Prudential's brochure in Phillips' brochure of January 1964, cursed and threatened to leave the deposition (Tr. 979-801). Adams, the chief executive of Phillips, denied knowing anything about the project at all (Tr. 2014-20), which typifies Phillips' arrogance not only toward Prudential but toward the courts. Chapman asserted that he took "no action" with respect to Prudential's brochure (Tr. 1988-89), although his own office memoranda established that he had given a copy to Conn at their meeting in Washington. A copy of Prudential's brochure concealed in Phillips' cover, which was discovered in Phillips' files in 1967, was not produced on discovery until May 1974 (E 1295 *et seq.*; Tr. 547, 702-03).

Phillips also argued that its project was different from Prudential's because it was to use as feedstock petroleum coming from Algeria rather than from the Caribbean. (See E 1187.) But in obtaining the quota, Phillips disavowed any intent to use Algerian feedstock and agreed to use Caribbean oil (E 905, 1041).

When it became clear that the cover-up would not work because the verbatim copying of Prudential's brochure in Phillips' brochure of January 1964 was finally uncovered, thus establishing access and intent to misappropriate, and because the project, as it had developed, followed Prudential's original proposals, Phillips changed its strategy. Learned, although he had repeatedly maintained in his depositions that he had not had any conversations with Anderson concerning the project between 1962 and 1965 or 1966 (Tr. 1606-11), claimed at trial that he and

Adams visited Anderson in New York in 1963 and said that Phillips wanted to pursue the project independently. This conflicted directly with Anderson's testimony, who said the meeting took place in 1965 (Tr. 758-59), which would be after the Secretary of the Interior announced recommendation of the quota and Phillips no longer needed Prudential. Learned's testimony also conflicted with that of Adams, who had testified—before the cover-up plan was abandoned—that the conversation never took place at all (Tr. 2020-22). In light of these inconsistencies and the inherent incredibility of Learned's testimony, since Prudential was still assisting Phillips in obtaining the quota as late as July 1964 (Tr. 758-59, 795, 934; E 807, 819, 1033-34), it is not surprising that the jury rejected Phillips' version of the facts.

A. The Evidence of Liability Was Clearly Sufficient

Prudential's evidence was fully sufficient, as a matter of law, to sustain the verdict. Phillips' letter to Prudential of November 1962 (Pl. Ex. 69) and the subsequent meetings between the parties pursuant to Phillips' offer to assist Prudential at which Prudential disclosed all of its ideas, clearly established a confidential relationship, even if the relationship fell short of a joint venture. In addition, Prudential disclosed all of its ideas to Anderson, who was on retainer to advise Phillips about new projects (Tr. 750-51, 971-72).

It was clear from the conversations and the Prudential brochure (which itself contained Phillips' letter to Prudential, E 1128, 1246, 1481) that Prudential intended to promote the project and manage the corporation which would operate it. Indeed, the brochure stated that the Prudential group expected to own over 25% of the project (E 1126, 1244, 1511).

The authorities are clear that under such circumstances a confidential relationship is implied even if not expressed by the parties and that one in Phillips' position cannot appropriate to its own use the ideas disclosed to it. *Heyman* v. *AR. Winarick, Inc.*, 325 F. 2d 584 (2d Cir. 1963); *Speedry Chemical Products, Inc.* v. *Carter's Ink Co.*, 306 F. 2d 328, 330 (2d Cir. 1962);

Schreyer v. *Casco Products Corp.*, 190 F. 2d 921 (2d Cir. 1951), *cert. den.*, 342 U. S. 913 (1952); *Cincotta* v. *Chas. Pfizer & Co.*, 17 Misc. 2d 983, 185 N. Y. S. 2d 935, 937 (Sup. Ct., Kings Co. 1959); Rest. of Torts, § 757, comments *b*, *e*.

Contrary to Phillips' contention, the ideas or concepts do not have to be patentable, unique or even novel. *Imperial Chem. Indus. Ltd.* v. *National Distillers & Chem. Corp.*, 342 F. 2d 737, 743 (2d Cir. 1965); *Franke* v. *Wiltschek*, 209 F. 2d 493, 495 (2d Cir. 1953); *Spiselman* v. *Rabinowitz*, 270 App. Div. 548, 61 N. Y. S. 2d 138 (1st Dept. 1946); *Klein* v. *Ekco Products Co.*, 135 N. Y. S. 2d 391 (Sup. Ct., Kings Co. 1954), *aff'd* 285 App. Div. 908, 139 N. Y. S. 2d 258 (2d Dept. 1955) (citing Restatement). Indeed, the protected idea can be obvious if it is disclosed in the course of a confidential relationship. In *American TCP Corp.* v. *Strauss Stores Corp.*, 206 Misc. 1017, 136 N. Y. S. 2d 76 (Sup. Ct., N. Y. Co. 1954), *aff'd* 285 App. Div. 1132, 140 N. Y. S. 2d 884 (1st Dept., 1955), the protected idea was nothing more than selling a gasoline additive separately in cans rather than adding it to fuel delivered at the pumps.

Mr. Justice Holmes set forth the principle succinctly in *E. I. DuPont de Nemours Powder Co.* v. *Masland*, 244 U. S. 100, 61 L. Ed. 1016 (1917), where he stated:

> "Whether the plaintiffs have any valuable secret or not the defendant knows the facts, whatever they are, through a special confidence that he accepted. The property may be denied but the confidence cannot be." (244 U. S. at 102)

In other words, one in Phillips' position cannot misappropriate ideas disclosed to it in the course of a confidential relationship and, when called to account, say that the ideas were worthless. If they were worthless, why did the defendant use them?

B. The Evidence of Damages Was Clearly Sufficient

The jury's award of $1,500,000 was completely justified by the evidence. The brochure which Phillips misappropriated ex-

pressly stated that Prudential, as a promoter, expected to receive over 25% of the project (E 1126, 1244, 1511). At a price differential of no more than $1.00 per barrel between domestic and foreign oil, a quota of 50,000 barrels per day was worth $18,250,000 per year, which is why the other oil companies so vigorously opposed it. The testimony of plaintiff's expert Rosenthal, whose testimony was clearly competent and admissible (see Tr. 1083-89, 1110-21, Fed. R. of Evid. 702-705), testified that the value of Prudential's contribution to the project was between $14,600,000 and $13,500,000 (Tr. 1146-51). Phillips' own witness testified that through 1975 Phillips' project earned $108,000,000 and was expected to earn as much as $60,000,000 more through 1979 (Tr. 1649-50).

It is well established that in determining damages flowing from misappropriation of trade secrets the finder of fact is entitled to consider the profit or advantage gained by the defendant in the use of the information. See, *e.g.*, *Telex Corp.* v. *International Business Machines Corp.*, 510 F. 2d 894, 930-31 (10th Cir. 1975), *reh. den.; University Computing Co.* v. *Lykes-Youngstown Corp.*, 504 F. 2d 518, 536 (5th Cir. 1974), *reh. den.; Clark* v. *Bunker*, 453 F. 2d 1006, 1010-11 (9th Cir. 1972); *Sperry Rand Corp.* v. *A-T-O, Inc.*, 447 F. 2d 1387, 1392-93 (4th Cir. 1971), *cert. den.*, 405 U. S. 1017 (1972); *International Industries, Inc.* v. *Warren Petroleum Corp.*, 248 F 2d 696, 699 (3d Cir. 1957), *reh. den.; Michel Cosmetics, Inc.* v. *Tsirkas*, 282 N. Y. 195, 199, 26 N. E. 2d 16, 17 (1940); *Lawrence of London, Ltd.* v. *Count Romi, Ltd.*, 30 App. Div. 2d 518, 290 N. Y. S. 2d 125 (1st Dept. 1968). Viewed in light of the value of the quota and Phillips' profits, the verdict was, if anything, modest.

The fact that Phillips made a separate investment in a satellite plant to make fibers which thereafter lost money and that Brown, Coan and Chapman received less than the jury awarded Prudential is no justification for reducing the jury's verdict. Brown gave up on the project and Chapman and Coan had gotten nowhere until Chapman gave Prudential's brochure to

Phillips. Moreover, Prudential, having been excluded from the project, had no say as to how the profits were to be invested and should not be required to pay for Phillips' mistaken separate business judgment.

This Court has acknowledged that its scope of review in examining the excessiveness of a jury verdict is "extremely limited." *Hart* v. *Forchelli*, 445 F. 2d 1018, 1019 (2d Cir. 1971), *cert. den.* 404 U. S. 940, 92 S. Ct. 284 (1971). Nothing in this record justifies an exception to that established rule. The damages awarded by the jury should be sustained.

C. The Evidence Supported The Finding of A Contract Implied In Fact

Phillips' attack upon the granting of plaintiff's motion to amend and the jury's finding of a contract implied in fact requires little comment. It is, of course, true that plaintiff tried to show a joint venture. The court and jury disagreed, however, and on the same facts, found a contract implied in fact. The fact that plaintiff originally interpreted the facts differently is not a ground for releasing Phillips from liability for its well documented misappropriation. "The law has outgrown its primitive stage of formalism when the precise word was the sovereign talisman, and every slip was fatal." *Wood* v. *Duff-Gordon*, 222 N. Y. 88, 91 (1917) (CARDOZO, J.)

The essence of the Federal Rules of Civil Procedure is "to secure the just . . . determination of every action" Rule 1. Rule 15 provides that when issues not raised by the pleadings are tried by express or implied consent of the parties, they shall be treated in all respects as if they had been raised by the pleadings. Such amendment of the pleadings as may be necessary to cause them to conform to the evidence and to raise these issues may be made upon motion of any party at any time, even after judgment.

As stated by the Supreme Court in *Foman* v. *Davis*, 371 U. S. 178, 182, 83 S. Ct. 227, 230 (1962), "If the underlying facts or circumstances relied upon by a plaintiff may be a proper subject of relief, he ought to be afforded an opportunity to test his

claim on the merits." See also *Atwater* v. *North American Coal Corp.*, 111 F. 2d 125, 126 (2d Cir. 1940) [" . . . after trial judgment must be given according to the right of the case, whether the correct legal theory has been presented or not, . . ."].

In view of the foregoing, both the District Court's leave to amend and the jury's verdict were legally correct and should be sustained. In any event, the jury also found Phillips liable in tort for misappropriation of Prudential's concepts and hence the denial of the motion to amend would not have affected the result of the trial.

III

The Award Of Interest From The Time Of Phillips' Misappropriation Was Proper.

Phillips' argument with respect to the award of interest states, in effect, that having misappropriated Prudential's concepts in December 1963 without any intention of paying for them, it is now entitled to "negotiate" a long term payout for the concepts. This is contrary to the applicable statute and the decided cases.

CPLR § 5001(b) states that interest shall be computed from the earliest ascertainable date the cause of action existed except that interest upon damages incurred thereafter shall be computed from the date incurred. This section has expressly been held to apply to cases of unfair competition [*DeLong Corp.* v. *Morrison-Knudson Co.*, 20 App. Div. 2d 104, 244 N. Y. S. 2d 859 (1st Dept. 1963), *aff'd* 14 N. Y. 2d 346, 251 N. Y. S. 2d 657 (1964)], breach of contract [*Julien J. Studley, Inc.* v. *Gulf Oil Corp.*, 425 F. 2d 947 (2d Cir. 1969)]; [*Earnest* v. *Donald Deskey Associates, Inc.*, 312 F. Supp. 1312 (S. D. N. Y. 1970)], and quantum meruit [*Spanos* v. *Skouras Theatres Corp.*, 235 F. Supp. 1 (S. D. N. Y. 1964), *aff'd* 364 F. 2d 161 (2d Cir. 1966), *cert. den.* 385 U. S. 987, 87 S. Ct. 597 (1966)].

The jury specifically found that Phillips both misappropriated Prudential's ideas and took them pursuant to a contract implied in fact on December 16, 1963 (Tr. 2316). This is the

appropriate date from which to compute interest under § 5001 (b) because it is the date on which the cause of action accrued both in tort and in contract. See, *e.g.*, *Greater N. Y. Coal & Oil Corp.* v. *Philadelphia & Reading Coal & Iron Co.*, 278 N. Y. 270, 15 N. E. 2d 801 (1938); *Brown* v. *Godefroy Mfg. Co.*, 278 App. Div. 242, 104 N. Y. S. 2d 444 (1st Dept. 1951); *Hart* v. *United Artists Corp.*, 252 App. Div. 133, 298 N. Y. S. 1 (1st Dept. 1937); *United States* v. *Walsh*, 240 F. Supp. 1019 (N. D. N. Y. 1965).

Having been found to have invaded Prudential's rights by unilaterally misappropriating Prudential's ideas, Phillips now attempts to create a hypothetical arrangement which Prudential and Phillips might have made had Phillips acted in good faith. Thus, Phillips argues, at the time of the misappropriation, Prudential's concepts were of uncertain value and Prudential would not have been paid for them until the core facility returned a profit.

This is pure speculation. Having taken Prudential's property without intending to pay, Phillips is not now entitled to postulate unilaterally the deal it *might* have made if it had known that it was going to be forced to pay. Indeed, it might be argued that if the value of the property had been set on the day of the misappropriation, Phillips would have offered more than that value in return for a delayed or contingent payment plan. The courts cannot be concerned with such speculative arguments.

What Phillips is doing is confusing the fact that at the time of the wrong, Prudential's damages were unliquidated—*i.e.*, that at that time the value of the concepts had not been fixed—with the question of the date of accrual of damages. It is true that Prudential's damages were not liquidated until the jury's verdict. But that will nearly always be true of property such as is involved here. Indeed, in cases of *quantum meruit*, contract implied in fact and unfair competition—to which § 5001(b) has been applied—**the damages will almost never be liquidated** until the jury's verdict. This is because of the very nature of those claims and the various factors which the jury must weigh

in arriving at its verdict. It is nevertheless well established that the fact that damages are unliquidated until the verdict is not a ground for depriving a plaintiff of interest from the date on which his rights were invaded. See *Funkhouser* v. *J. B. Preston Co.*, 290 U. S. 163, 54 S. Ct. 134 (1933); *Flamm* v. *Noble*, 296 N. Y. 262, 72 N. E. 2d 886 (1947); *Rock Transport Properties Corp.* v. *Hartford Fire Ins. Co.*, 312 F. Supp. 341 (S. D. N. Y. 1970), *aff'd* 433 F. 2d 152 (2d Cir. 1970); see also *Collier* v. *Granger*, 258 F. Supp. 717 (S. D. N. Y. 1966). To permit Phillips to escape payment of interest here would effectively overrule those cases and the cases which apply § 5001(b) to claims which have an uncertain value when the wrong was committed.

The cases which Phillips cites in support of its position are not applicable here. In those cases, the plaintiff had made continuing expenditures after the original breach, as in *Gelco Builders & Burjay Const. Corp.* v. *Simpson Factors Corp.*, 60 Misc. 2d 492, 301 N. Y. S. 2d 728 (Sup. Ct., N. Y. Co. 1969), or there was an express contract providing for periodic payment running beyond the date of the action, as in *Hollwedel* v. *Duffy-Mott Co.*, 263 N. Y. 95, 188 N. E. 266 (1933). Since these payments were specifically provided for by the express contract sought to be enforced or could be dated as to time of payment, no interest was awarded until the dates the payment were, or, by contract, were required to have been, made.

In the instant case, there was no express contract. Instead, the jury found that on December 16, 1963—the date on which Learned wrote to EDA and incorporated Prudential's ideas in Phillips' proposal to establish a petrochemical facility in Puerto Rico—Phillips misappropriated Prudential's property to its own use. That was the date upon which the cause of action accrued and the date upon which Prudential was damaged. Moreover, it was the date as of which the jury was properly instructed to fix the value of the property (Tr. 2264-65).

The fact that the value of the property was not fixed—indeed, given Phillips' position that it owed Prudential nothing,

could not have been fixed—until the verdict of January 27, 1976, does not relieve Phillips of paying interest from the time of its wrong. One who misappropriates property of uncertain value and denies an obligation to pay must always anticipate the possibility that the value will eventually be fixed by a jury. But the fact that it is the jury, and not the parties, which fixes the value of the property as of the date of the misappropriation has nothing to do with the defendant's obligation to pay interest from the date the cause of action accrued. Otherwise no defendant who misappropriated property of uncertain value would ever have to pay interest, because he would always argue, as Phillips does here, that on the date of the misappropriation the plaintiff could never have obtained the amount awarded by the jury or would have taken a contingent payment. This would read, by judicial legislation, a large and totally unjustifiable exception into § 5001(b). Moreover, as the above cases establish, it is not the law.

The award of interest from December 16, 1963, was correct under the applicable statute and cases and should not be disturbed.

CONCLUSION

The judgment of the District Court was correct and should be affirmed.

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